

# **UNITED STATES SENATE**

What People are Saying About... Ending Too Big To Fail:

The  $\underline{\mathbf{T}}$ erminating  $\underline{\mathbf{B}}$ ailouts for  $\underline{\mathbf{T}}$ axpayer  $\underline{\mathbf{F}}$ airness Act

Anat Admati, George G.C. Parker Professor of Finance and Economics, Graduate School of Business, Stanford University, and Martin Helwig, Director, Max Planck Institute for Research on Collective Goods, Bonn, and Professor of Economics, University of Bonn:

"We commend Senators Brown and Vitter for taking an important step towards creating a safer and healthier financial system that supports the economy consistently and with fewer distortions. If passed and implemented properly, this bill would do more to protect the public from unnecessary risk than current and proposed regulations, including Basel III."

## Sheila Bair, Former Chairman, FDIC:

"Strengthening capital requirements for large financial organizations is essential to having a resilient financial system which can function and fulfill the credit needs of the real economy both in good times and in bad. Consistent with the Brown-Vitter approach, I have long advocated the adoption of simple and effective constraints on leverage, as well as stringent limits on the use of insured deposits to support only lending and other traditional banking activities.

I commend Senators Brown and Vitter for this important, bipartisan initiative.

At the same time, I believe that US implementation of Basel III is necessary to ensure that other nations follow through on their commitments to strengthen capital requirements for large, internationally active banks. Basel III was meant as a floor, not a ceiling, and proposals to strengthen bank capital requirements should build on that accord.

The introduction of this bill should send a strong message to regulators that they need to do more."

## Cam Fine, President, Independent Community Bankers of America (ICBA):

"ICBA looks forward to working with Sens. Brown and Vitter to advance this vital legislation, which will help end the stranglehold of too-big-to-fail on this nation's financial sector. Doing so will allow for a truly free market economy where all banks are allowed to succeed or fail based on their merits and not the government picking winners and losers. By supporting market forces and the foundation of our nation's banking system—capital—the Brown-Vitter bill will help end the too-big-to-fail threat to our financial system."

# Simon Johnson, Ronald A. Kurtz Professor of Entrepreneurship, MIT Sloan School of Management, Senior Fellow at the Peterson Institute for International Economics:

"The Brown-Vitter legislation is timely and precisely on target. Regulators have dragged their feet on implementing Dodd-Frank in general and capital standards under Basel III remain too weak - primarily due to the unfortunately excessive influence of European countries. Brown-Vitter will push us in exactly the right direction both on levels of equity funding and on the structure of big banks."

# Press Release from Dennis Kelleher, President, Better Markets, Inc.:

"The last financial crisis will cost the US more than \$12.8 trillion, mostly from too-big-to-fail banks, firms and activities. That threat, from only a handful of the biggest banks in the world, is now even bigger and still hangs over our country. It must be ended. Senators Brown and Vitter are proposing a new bill to change the behavior of the largest megabanks and protect the American taxpayer from having to bail them out again when they take large losses. The key requirement of the bill is that the very largest megabanks finance at least 15 percent of their all their assets with equity rather than borrowed money. This is a modest requirement that should be immediately adopted.

"Just like banks require borrowers to put 20 percent down to get a loan, megabanks should be required to have equity before they borrow trillions of dollars. This requirement alone could dramatically improve the stability of the financial system. It would make large banks better prepared to endure large losses and continue lending without having to be bailed out by taxpayers.

"The bill also addresses market distortions created by implicit federal support for all of the operations within large bank holding companies. It proposes to end Federal Reserve lending to non-depository subsidiaries, through the discount window or emergency lending facilities. The bill also requires prohibits the transfer of the liabilities of nonbank subsidiaries onto the balance sheets of insured depositories. These two changes would make it clear to capital market lenders that the non-depository subsidiaries of large bank holding companies will not be rescued if they get into trouble. This will increase market discipline of very large bank holding companies.

"This bill takes a thoughtful and consistent approach to the problems that large bank holding companies create for the financial system. It adopts regulatory strategies that are opened up by the Dodd Frank Act, but which banking regulators have so far refused to pursue. Critics of the bill have their work cut out for them."

## Allan Meltzer, Professor of Political Economy, Carnegie Mellon University:

The Vitter-Brown bill is a tremendous forward step that protects the public from failure of large banks. It puts the cost of imprudent lending and portfolio error on the banks, where it once stayed. It greatly reduces the risk that taxpayers will pay to bail out banks. It encourages prudence. And we know it can work to the public's benefit.

We know that because larger equity capital requirements were once the norm. In the very worst banking crisis, 1929-32, no large New York bank failed or required a bailout. The reason was that these banks held 15 to 20 percent equity capital reserves. That gave them an incentive to be prudent, and they were.

Bankers will scream that higher equity capital requirements will reduce lending. Don't believe it. The Federal Reserve determines the amount of money and credit, not the banks. The banks decide who gets the credit. Depositors in smaller banks are protected by deposit insurance, paid for by bankers, so it is right that they hold lower equity reserves. Large banks have been encouraged to grow huge to get the protection of taxpayer funded too-big-to-fail. The Vitter-Brown bill ends that subsidy and protects consumers and taxpayers. It should be hailed as first rate consumer protection.